GREAT NORTHERN
E X P L O R A T I O N

GNL

GREAT NORTHERN EXPLORATION
2002 ANNUAL REPORT

GREAT NORTHERN IN BRIEF

Great Northern Exploration Ltd. is a Calgary based junior public company actively engaged in the exploration, development and production of natural gas and crude oil. The Company's shares trade on the Toronto Stock Exchange under the symbol "GNL". The Company was incorporated in August 2001 and commenced active operations in late 2001. Great Northern has a total capitalization of approximately $103 million.

The year ended 2002 marked a formative completion to Great Northern's first complete year of operations. Great Northern's value-based growth strategy proved successful both operationally and financially in 2002, setting the stage to build momentum in 2003.

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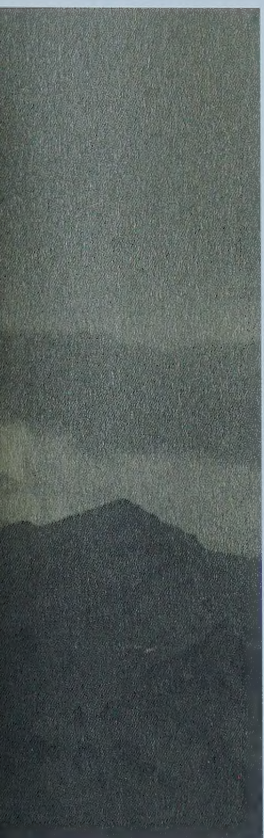
ANNUAL MEETING

The Annual and Special Meeting of Shareholders will be held at 3:00 PM on Wednesday, May 21, 2003 in the Eau Claire Room at the Westin Hotel, Calgary, Alberta. All shareholders and invited guests are encouraged to attend.

HIGHLIGHTS



Year ended December 31,	2002	2001*
Financial *(thousands of dollars except share data)*		
Petroleum and natural gas revenue	**12,170**	–
Cash flow from operations	**6,305**	(193)
Per share Basic	**0.27**	(0.02)
Diluted	**0.26**	(0.02)
Net earnings (loss)	**1,794**	(196)
Per share Basic	**0.08**	(0.02)
Diluted	**0.07**	(0.02)
Capital expenditures	**13,602**	3,329
Corporate acquisition	**20,573**	–
Debt, net	**10,189**	(8,367)
Shareholders' equity	**24,464**	11,694
Total assets	**40,363**	11,800
Weighted average shares (thousands)		
Basic	**23,024**	10,541
Diluted	**24,016**	10,541
Shares outstanding (thousands)		
Basic	**30,484**	17,065
Diluted	**32,959**	18,463
Operating *(6:1 boe conversion)*		
Average daily production		
Natural gas (mmcf/d)	4.3	–
Liquids (bbls/d)	430	–
Barrels of oil equivalent	1,155	–
Average sales price		
Natural gas ($/mcf)	4.33	–
Liquids ($/bbl)	33.76	–
Barrels of oil equivalent ($/boe)	28.88	–
Wells drilled		
Gross	35	–
Net	26.5	–
Working interest (%)	76	–
Success rate (%)	83	–
Reserves - proved and probable		
Natural gas (mmcf)	31,225	1,484
Liquids (mbbls)	2,923	1,115
Barrels of oil equivalent	8,127	1,362
Undeveloped land		
Gross acres	412,708	937
Net acres	148,528	1,440
Working interest (%)	36	65

* *Great Northern Exploration Ltd. was incorporated in August 2001 and commenced active operations in late 2001. Accordingly, minimal operations were recorded for the comparative period in 2001.*

REPORT TO SHAREHOLDERS

Our report to shareholders issued at this time last year outlined the initialization and funding of Great Northern as a private company in 2001, the compliment of skills we had established in our team and our vision for the future. To reiterate; "Our vision is, through a combination of grassroots exploration, strategic acquisitions and subsequent exploitation, to build a focused asset base over the next three to five years which will ultimately become an attractive acquisition for a larger producer". The strategy we have followed to meet our vision has proven successful. The past year has shown our team has the drive, the skills, and the flexibility to reach our goals within an ever-changing environment.

Prior to starting Great Northern we debated our business plan in light of the low commodity price environment as well as the potential for numerous acquisition opportunities based on the unprecedented cycle of corporate consolidation that had occurred through late 2000 and early 2001. We decided to slightly modify the model that had proved successful at our previous venture, Ionic Energy Inc. In less than four years, utilizing approximately $34 million of equity we created a 6,000 boe/d company, which we ultimately sold for approximately $200 million. That model, predominantly driven on full cycle exploration provided wonderful upside exposure for our shareholders but at times lead to lack of consistency in our growth profile.

To put more balance in Great Northern's strategy we decided to allocate a defined portion of our time to search out acquisitions to which we could apply our skills to enhance underlying value. What was difficult to anticipate was the continued strong demand in the asset market as previous acquirers rationalized their assets. This high demand has lead to a difficult buying environment. What was evident was that those purchasers with a lower cost of capital were able to push the envelope further, thereby becoming the successful acquirer. Clearly if we were to maintain the growth profile we had set, our strategy required some flexibility. Our model was intact; our timing was slightly out of sinc.

Weighing our options and based on the strong exploration portfolio we had assembled by the end of Q1 2002 we made the decision to increase the exploration component of our strategy. Our belief was that to support the infrastructure and risk profile a larger exploration program entailed we needed to have a minimum of 1,500 boe/day of production which would relate to at least $10 million of annualized cash flow. At that point we could afford to take reasonable risks. We also recognized that we needed an entry point into the public markets to provide a greater source of capital funding for our exploration focus and potential corporate and asset acquisition opportunities. We did however desire to remain opportunistic, in that regardless of the mechanism, the key was to deliver value based asset growth.

We commenced a search for the appropriate vehicle to provide Great Northern with a timely and strategic entry into the public markets and, firmly establish the production and cash flow platform we believed was necessary to succeed in the current competitive environment of junior oil and gas producers.

In May, we announced the acquisition by way of reverse takeover of Ascot Energy Resources Ltd. ("Ascot"). Ascot was an ideal candidate as it had a large and varied undeveloped land base, which for the past number of years had been undercapitalized. Our team had operational experience at all of Ascots properties and we had adjacent exploratory lands at Millet, Alberta, an area that has proven very successful for us. The combined company provided an excellent platform to run a strong exploration program.

Since the Ascot acquisition at midyear we have effectively used that platform to implement our strategy and grow the company to current production and cash flow levels more than double our originally combined rates. Our vision and strategy were intact.

In keeping with our strategy our drilling program initially developmental in nature evolved over the year to become more exploratory in focus. By year-end we had participated in 35 gross wells (26.5 net) and achieved an overall success rate of 83 percent even though 57 percent of the wells were classified as exploratory. Development drilling was concentrated in Greater Provost and Robsart whereas key exploratory discoveries were made in Paddle River and Millet. Consistent with our vision we

again focused on West Central Alberta as the long-term growth area for Great Northern. The region offers reasonable drilling depth; multi-zone liquids-rich gas reservoirs, which typically have longer reserve lives. Most important is that most of our technical team has spent their careers finding, producing, and optimizing reservoirs in this area.

We are committed to exploration, as it is the true way to enhance ultimate value but we also realize it can provide an erratic growth profile. As part of our strategy we will balance our exploratory program quarterly with development activity therefore ensuring baseline production growth while ensuring the upside of exploratory success is available.

In 2002 we spent $34.2 million on capital expenditures, of which $20.6 million was incurred on the acquisition of Ascot and the remainder on our grassroots exploration and development drilling programs. Overall our 2002 and life to date deployment of capital has been admirable. With $37.5 million of capital expenditures incurred to date ($31.2 million net of cash flow) we have created a net asset value base at PV10% of $69 million and a corporate enterprise value of $100 million. We are proud of this accomplishment in only 15 months. Our initial investors have seen a 350 percent return on their investment. We will endeavor to continue with the momentum we have created in 2002.

During September we commenced trading on the Toronto Stock Exchange. We believe this listing will provide greater exposure to Canadian and United States institutional investors, thereby providing greater liquidity for our shareholders. We were pleased with the issue of $4 million of equity in the fourth quarter, at $2.90 per share. This infusion of capital was timely as it allowed us to complete an aggressive winter drilling program while maintaining a low debt to cash flow ratio. We thank those who participated in this issue as well all those who purchased our shares since the Ascot acquisition. We appreciate the confidence you have shown in our team. Although insiders currently own 29 percent of the Company shares we firmly believe this is not Management's Company, it is run for the long-term benefit of all shareholders.

We believe that the future is bright for Great Northern. We have financial capacity, a dedicated and motivated team and Board of Directors and a growing opportunity inventory to move us to the next level that our strategy dictates. Our exploratory ideas have the ability to move us to the next step. Again the dynamics of the business appear to be changing to more of a buyer's environment with recently close to $3 billion of companies and assets having been put on the market. We as always will depend on our internal skills to generate our growth but I am optimistic strategic acquisition opportunities will become available over the next twelve months.

Expect a similar optimistic outlook at this time next year, as I am confident we will deliver on increasing the underlying value of Great Northern in 2003. It will be through the continued efforts of our team that success will be ensured. We will continue to build on our vision and add shareholder value through 2003.

On behalf of the Directors and the team at Great Northern, I look forward to reporting our future success to you.

James M. Saunders, P.Eng.
President and Chief Executive Officer

April 10, 2003

OPERATING AREAS

One of the key components of Great Northern's operating strategy is to concentrate operations in three to five core areas of varying maturity within internally identified exploration fairways. Most of our exploration effort is based within a fairway that runs from Southern Alberta to the Swan Hills area in West Central Alberta. We are focusing in this area to capitalize on the multi zone liquids rich natural gas reservoirs that exist in the area. The region offers reasonable drilling depths under 2000 meters and typically longer life reserve accumulations. The vast majority of the region is accessible year round, ensuring reasonable times from drilling to commencement of cash flow. Existing infrastructure and natural gas transmission systems further enhance Great Northern's ability to fast track cash flow additions from our discoveries.

The exploration and development cycle for a new core area takes between one and three years from initial concept to full exploitation. Our strategy is to ensure that we have multiple prospects throughout the exploration/exploitation cycle. As one prospect becomes fully exploited, additional prospects in earlier phases of the cycle are coming up behind to ensure continued growth. To achieve this strategy Great Northern initially positioned the company in the Greater Provost area. By leveraging off of Great Northern's managements expertise in the area it has provided stable cash flow and low risk developmental opportunities to fuel the growth of new core areas.

In late 2001 the Company purchased approximately 230 boepd in Greater Provost providing a nucleus of operations we could expand from. The Ascot transaction in the summer of 2002 provided our second and third core operating areas at Robsart, Saskatchewan and Millet, Alberta. The Ascot transaction further provided reasonable West Central Alberta production and a land position we could build upon. Robsart, like Greater Provost, provides short to intermediate term development drilling upside with some longer term exploration potential. The Millet area is positioned directly within our long term exploration fairway and provides long term exploratory growth potential. Great Northern was now well positioned with two predictable, lower risk development areas that offered extensive exploitation opportunities to provide the cash flow to fund our longer term exploration push as well as West Central Alberta exploratory lands that would drive the long-term growth of the Company.

Properties

Greater Provost

Great Northern's initial property acquisition secured assets at Chauvin, Cadogan and Soapy Lake. These assets were previously owned by a major producer who had long considered them as minor properties. Since early 2002 through development drilling and some minor acquisitions we have expanded our production base to a current level of approximately 1,000 boepd (30% natural gas). Our assets at Chauvin include three Sparky oil pools under waterflood in addition to a recently discovered Colony

natural gas pool. Tie-in operations are underway for a projected mid 2003 on-stream date. A recent 3D seismic survey over one of the waterfloods will lead to a multi-well summer infill drilling program.

At Cadogan our operations are predominately exploiting Rex and Sparky reservoirs. Additional development drilling has been identified in the Rex with a multi-well program scheduled for late summer 2003.

Robsart

Located in the extreme south western corner of Saskatchewan, Great Northern as operator holds a fifty percent interest in 163,000 acres of undeveloped land with significant shallow gas potential. Centered around three operated compression facilities and extensive pipeline infrastructure, Great Northern has been exploiting a large Bearpaw gas pool as well as numerous Belly River gas accumulations. Current production rates of 500 boe/day (100% natural gas) offer stable cash flow. Great Northern will be conducting a 25 well drilling program during the summer of 2003 which will include both development wells and exploratory prospects targeting a northerly extension of known Belly River gas accumulations. Beyond this program, Great Northern has identified an additional 50 drilling locations.

Millet

This Company operated area located just south of Edmonton is one of the current growth areas for the company. The Ascot transaction in the summer of 2002 leveraged Great Northern into this area with core production of 200 boepd and land holdings of 10,000 net acres. The company has utilized its extensive geological and geophysical expertise to drill five successful wells which have been tied in during the first quarter of 2003. The current production from the area is approximately 1,000 boepd (75% natural gas).

Great Northern has continued to enhance the existing land base in the area through a series of farmin arrangements and crown land acquisitions. Currently, Great Northern has 20,000 net acres of undeveloped land. A large 3D seismic survey is being planned for the second quarter of 2003 to assist in firming up targets for an 8 to 10 well drilling program to commence this summer.

This area offers the company the opportunity for continued growth through exploration and exploitation. The area has been under explored due to a lack of infrastructure in the area. Great Northern has expanded infrastructure into the area constructing in excess of 25 kms of pipeline during the first quarter of 2003. With this owned and controlled infrastructure Great Northern has a distinct advantage for continued development in the area.

West Central Alberta

During the latter half of 2002 and into 2003, Great Northern successfully expanded its asset base with exploration and development success at Pine Creek and Paddle River. These areas are characterized by long reserve life low decline production.

Great Northern's current production from the area is approximately 400 boepd (60% natural gas). With the additional success of the first quarters drilling program the area will exit the second quarter of 2003 with production of 500 boepd (75% natural gas). Further tie in work and drilling during the balance of the year is expected to increase production in the area to in excess of 700 boepd.

Great Northern has identified multiple opportunities on lands which are currently not controlled. Through an aggressive farmin and crown land purchase strategy Great Northern intends to continue to expand production from this area.

Undeveloped Land

During 2002, Great Northern substantially increased its undeveloped land holdings. Crown and freehold acquisitions, combined with the Ascot transaction, provides the Company with substantial opportunity to generate significant drilling prospects over the next two years. Within it's core operating areas, Great Northern maintains a high working interest and is operator of substantially all it's undeveloped lands.

The Company's undeveloped lands were independently evaluated as at December 31, 2002 by Seaton-Jordan & Associates Ltd.

	2002			2001		
Acres *(by Core Area at December 31)*	Gross	Net	Average Interest	Gross	Net	Average Interest
Greater Provost	11,794	4,850	41%	1,440	937	65%
Robsart	163,076	81,370	50%	–	–	
Millet	19,637	16,989	87%	–	–	
West Central Alberta	25,360	9,742	38%	–	–	
Other areas	192,841	35,577	18%	–	–	
Total	412,708	148,528	36%	1,440	937	65%
Value ($thousands)		7,117			30	

Drilling Activity

The number of exploratory and development wells drilled by Great Northern in 2002 are summarized below (no drilling activity occurred in 2001):

	Exploratory		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Crude oil	2	1.2	4	4.0	6	5.2
Natural gas	11	7.2	10	7.3	21	14.5
Service	1	1.0	1	1.0	2	2.0
D & A	5	3.8	1	1.0	6	4.8
Total	19	13.2	16	13.3	35	26.5
Success rate (%)	74	71	94	92	83	82
Average WI (%)		69		83		76

Production

In 2002, Great Northern's average daily production was 1,155 boe/d comprised of 4.3 mmcf/d of natural gas and 430 bbls/d of liquids. The Ascot transaction closed in July, 2002 and, accordingly, production from this acquisition has been recorded since that time. The Company's production for the fourth quarter averaged 2,061 boe/d, an increase of 19 percent from the 1,726 boe/d in the third quarter.

	2002			Three Months ended December 31, 2002			
Daily production	Natural Gas mcf/d	Liquids bbls/d	boe/d	Natural Gas mcf/d	Liquids bbls/d	boe/d	%
Greater Provost	1,367	251	479	2,048	270	611	30
Robsart	1,095	–	183	2,559	–	427	21
Millet	673	95	207	1,443	194	434	21
West Central Alberta	623	48	152	1,428	102	340	16
Other areas	588	36	134	1,018	79	249	12
Total	4,346	430	1,155	8,496	645	2,061	100

Reserves

Great Northern's reserves were evaluated by Gilbert Laustsen Jung Associates ("GLJ") as at January 1, 2003 and 2002. The Reserve Committee of the Board of Directors, consisting entirely of independent directors, has met with a representative of GLJ and has reviewed the report in accordance with its mandate.

During 2002, total proved reserves increased by 536% and established reserves increased 511%, adding 6,003 mboe of established reserves which replaced annual production by 14.3 times. On a 10 percent net present value basis, the value of total proved reserves grew 1,246%, reflecting the increased volumes and commodity prices.

Reserves Summary

	January 1, 2003			January 1, 2002		
	Natural Gas mmcf	Crude Oil and NGL mbbls	Total (6:1) mboe	Natural Gas mmcf	Crude Oil and NGL mbbls	Total (6:1) mboe
Proved						
Producing	14,934	1,552	4,041	572	527	622
Non-producing	3,106	107	625	190	15	46
Undeveloped	2,406	153	554	305	102	153
Total proved	20,446	1,812	5,220	1,067	644	821
Probable additional	10,779	1,111	2,907	417	471	542
Total proved and probable	31,225	2,923	8,127	1,484	1,115	1,363
Reduction for risk (50%)	5,389	555	1,454	208	236	271
Total established	25,836	2,368	6,673	1,276	879	1,092

Value of Reserves

	January 1, 2003 *			January 1, 2002		
Present Worth Discounted at ($000's)	0%	10%	15%	0%	10%	15%
Proved						
Producing	65,985	45,685	40,168	6,138	3,415	2,900
Non-producing	9,678	7,110	6,305	586	411	352
Undeveloped	5,939	3,423	2,714	994	468	282
ARTC	3,351	2,322	2,020	72	56	56
Total proved	84,953	58,540	51,207	7,790	4,350	3,590
Probable additional	41,384	19,913	15,330	6,140	2,920	2,210
Total proved and probable	126,337	78,453	66,537	13,930	7,270	5,800
Reduction for risk (50%)	20,692	9,956	7,665	3,070	1,460	1,105
Total established	105,645	68,497	58,872	10,860	5,810	4,695

* *Utilizing GLJ's January 1, 2003 price forecast*

Reserves Reconciliation

	Natural Gas mmcf		Crude Oil and NGL mbbls		Total (6:1) mboe	
	Proved	Proved plus Probable	Proved	Proved plus Probable	Proved	Proved plus Probable
Total, January 1, 2002	1,067	1,484	644	1,115	821	1,362
Discoveries, acquisitions and revisions	20,965	31,327	1,325	1,965	4,820	7,186
Production	(1,586)	(1,586)	(157)	(157)	(421)	(421)
Total, January 1, 2003	20,446	31,225	1,812	2,923	5,220	8,127

Net Asset Value

December 31 (thousands of dollars)	2002	2001	% change
Present value of established reserves, discounted @ 10%	68,497	5,810	
Undeveloped acreage	7,117	30	
Long term debt	(5,107)	–	
Working capital (deficiency)	(5,082)	8,367	
Proceeds on stock options	3,367	1,076	
Net asset value	68,792	15,283	450%
Diluted shares outstanding at year end ('000)	32,959	18,463	179%
Net asset value per diluted share	2.09	0.83	252%

Finding and Development Costs

The most important measure of the Company's performance and ultimate profitability is our cost to find, develop and bring on-stream new reserves.

The Company's all in finding and development costs (F&D) for the year, on a proved basis were $7.09 per boe ($5.69 per established boe). The July 2002 reverse takeover of Ascot Energy included $20.6 million of costs in the F&D calculation for the year. In the Company's press release dated March 5, 2003, it was disclosed that, based on total 2002 capital expenditures of $37.4 million, the Company's proven and established F&D costs were $7.76 and $6.23 per boe respectively. Subsequently, the deemed cost of the Ascot Energy reverse takeover was reduced by $3.2 million resulting from the recognition of a future income tax asset. Current accounting rules required a reduction of the book value of Ascot Energy and, accordingly, total capital expenditures were reduced by $3.2 million to a total of $34.2 million.

	2002	Two Year Total/Average
Capital expenditures ($ thousands)	34,175	37,504
Finding and development per boe		
Proved	$ 7.09	$ 6.65
Established	$ 5.69	$ 5.29
Reserve replacement ratio (proved)	11.4x	n/a
Recycle ratio (proved)	2.5x	n/a
Depletion ratio ($/boe)	$ 6.41	n/a

Reserve Recycle Ratio

The Company's reserve recycle ratio is a measure of its ability to grow the reserve base from the net revenue that is generated. In 2002, at 2.5 times for proved reserves, it indicates that by re-investing the proceeds from every barrel of oil equivalent produced, the Company was able to add two and a half new barrels of oil equivalent.

THE MD & A

Management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements of the Company included in this Annual Report.

GNL was incorporated in August 2001 and commenced active operations in late 2001. Accordingly, minimal operations were recorded for the comparative periods in 2001.

REPORTING AND MEASUREMENT

- As reported above, Great Northern was incorporated as a private company in August 2001 with minimal operations for 2001. In July 2002 the Company, through a reverse takeover, acquired Ascot Energy Resources Ltd. Accordingly, for comparative purposes throughout the MD&A, the disclosure is for the fourth quarter and for the year ended December 31, 2002.
- Per barrel of each equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil.
- For reporting purposes, natural gas liquids have been aggregated with oil.

FINANCIAL HIGHLIGHTS

	Three months ended December 31,		Year ended December 31,	
	2002	2001	**2002**	2001
Financial *(thousands of dollars except share data)*				
Petroleum and natural gas revenue	**5,870**	–	**12,170**	–
Cash flow from operations	**3,316**	(193)	**6,305**	(193)
Per Share - basic	**0.13**	(0.02)	**0.27**	(0.02)
- diluted	**0.12**	(0.02)	**0.26**	(0.02)
Net earnings (loss)	**952**	(196)	**1,794**	(196)
Per Share - basic	**0.04**	(0.02)	**0.08**	(0.02)
- diluted	**0.03**	(0.02)	**0.07**	(0.02)
Capital expenditures	**5,137**	3,329	**13,602**	3,329
Corporate acquisition	–	–	**20,573**	–
Debt, net			**10,189**	(8,367)
Weighted average shares (thousands)				
Basic			**23,024**	10,541
Diluted			**24,016**	10,541
Shares outstanding (thousands)				
Basic			**30,484**	17,065
Diluted			**32,959**	18,463
Operating *(6:1 boe conversion)*				
Average daily production				
Natural gas (mmcf/d)	**8.5**	–	**4.3**	–
Liquids (bbls/d)	**645**	–	**430**	–
Barrels of oil equivalent	**2,061**	–	**1,155**	–
Average sales price				
Natural gas ($/mcf)	**4.96**	–	**4.33**	–
Liquids ($/bbl)	**33.62**	–	**33.76**	–
Barrels of oil equivalent ($/boe)	**30.95**	–	**28.88**	–

CORPORATE

The year ended 2002 marked a formative completion to Great Northern's first complete year of operations. Great Northern's value-based growth strategy proved successful both operationally and financially in 2002, setting the stage to build momentum in 2003.

Highlights of our very successful financial year follow:

- Corporate production growth from 230 boe/d to an exit of 2,400 boe/d while adding 4.8 million boe of proved reserves, replacing annual production over 11 times
- Increased quarterly cash flow per share by 550 percent from the first quarter 2002 to the fourth quarter 2002 with earnings increasing 400 percent over the comparable period
- Completed reverse takeover of Ascot Energy Resources Ltd. and integrated the companies both operationally and financially
- Drilled 26.5 net wells at an 83% success rate
- Completed a private placement for gross proceeds of $4.0 million

PETROLEUM AND NATURAL GAS REVENUE

(thousands of dollars)	Three months ended December 31, 2002	Year ended December 31, 2002
Natural gas revenue	4,117	8,054
Liquids revenue	1,974	3,894
Hedging gains (loss)	(368)	(133)
Royalty and other	147	355
	5,870	12,170

The Company's production for the fourth quarter averaged 2,061 boe/d, an increase of 19 percent from the 1,726 boe/d in the third quarter. Natural gas production increased to 8.5 mmcf/d in the fourth quarter from 6.7 mmcf/d in the third quarter. Liquids production increased to 645 bbls/d from 606 bbls/d in the third quarter. This increase was attributable to a successful drilling program that resulted in an 83% drilling success rate. Production for the twelve months ended December 31, 2002 was 1,155 boe/d comprised of 4.3 mmcf/d of natural gas and 430 bbls/d of liquids.

Petroleum and natural gas revenue increased by 37 percent to $5.9 million from the $4.3 million recorded in the third quarter. Strong natural gas prices, combined with increased production, resulted in the increase for the quarter.

RISK MANAGEMENT

Financial instruments are entered into by the Company to protect the downside prices received on the sale of a portion of its crude oil and natural gas production. The Company has entered into a number of hedge contracts and currently has approximately 30 percent of current 2003 production hedged as summarized below:

Commodity	*Type*	*Term*	*Volume*	*Price*	*Index*
Natural gas	Fixed	April 2002 - March 2003	2,000 GJ's/d	$4.20/GJ	AECO
Natural gas	Fixed	August 2002 - March 2003	1,000 GJ's/d	$3.96/GJ	AECO
Natural gas	Fixed	April 2003 - October 2003	1,000 GJ's/d	$5.72/GJ	AECO
Natural gas	Fixed	April 2003 - March 2004	2,000 GJ's/d	$5.87/GJ	AECO
Crude oil	Fixed	September 2002 - August 2003	100 bbls/d	US $26.50/bbl	WTI
Crude oil	Fixed	October 2002 - September 2003	100 bbls/d	US $27.10/bbl	WTI
Crude oil	Fixed	January 2003 - December 2003	150 bbls/d	US $26.58/bbl	WTI

ROYALTIES

(thousands of dollars)	Three months ended December 31, 2002	Year ended December 31, 2002
Crown	1,027	1,972
Freehold and GORR	156	259
Alberta Royalty Tax Credit	(190)	(266)
	993	1,965
Percent of total revenue	16.9%	16.1%
Per boe ($)	5.24	4.66

Total royalties, net of the Alberta Royalty Tax Credit, increased by 152% to $993 thousand from $653 thousand in the third quarter. A 19% increase in production volumes combined with a 14% increase in commodity prices resulted in the higher royalties for the fourth quarter.

OPERATING EXPENSES

	Three months ended December 31, 2002	Year ended December 31, 2002
Total operating costs ($000's)	1,082	2,626
Percent of total revenue	18.4%	21.6%
Per boe ($)	5.70	6.23

Operating costs for the fourth quarter of 2002 were consistent at $1.1 million with that recorded in the third quarter. During the third quarter, the Company implemented cost cutting initiatives at Watelet, Alberta and Robsart, Saskatchewan resulting in a decrease in operating costs on a per unit basis in the fourth quarter to $5.70 per boe from $6.74 per boe in the third quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended December 31,		Year ended December 31,	
(thousands of dollars)	2002	2001	2002	2001
General and administrative	545	193	1,363	193
Overhead recoveries	(173)	–	(278)	–
Capitalized G & A	(101)	–	(147)	–
Net	271	193	938	193
Percent of total revenue	4.6%	n/a	7.7%	n/a
Per boe ($)	1.43	n/a	2.23	n/a

General and administrative expenses for the fourth quarter were $271 thousand after recoveries and capitalized costs.

FINANCIAL CHARGES

	Three months ended December 31, 2002	Year ended December 31, 2002
Total financial charges ($000's)	136	220
Per boe ($)	0.72	0.52

Financial charges were higher in the fourth quarter as the Company assumed $14.0 million of bank debt on the Ascot transaction. Prior to the takeover Great Northern had no bank debt.

DEPLETION, DEPRECIATION AND SITE RESTORATION

	Three months ended December 31,	Year ended December 31,
(thousands of dollars)	2002	2002
Depletion and depreciation	1,141	2,712
Site restoration and abandonment	35	136
	1,176	2,848
Percent of total revenue	20.0%	23.4%
Per boe ($)	6.20	6.76

Depletion and depreciation expense for the fourth quarter was $1.2 million, consistent with the $1.1 million recorded in the third quarter. Increased production in the quarter was offset by reserve additions resulting in a minimal increase for the quarter. On a unit of production basis, the total provision was $6.20 per boe for the fourth quarter compared to $6.76 per boe for the year. This decrease in the quarter reflects the increase in reserves attributable to both the third and fourth quarter drilling programs.

INCOME AND OTHER TAXES

Capital tax

Capital tax is comprised of the federal Large Corporations Tax (LCT) and various provincial capital taxes resulting from resource revenue from that province. The LCT is calculated based upon the Company's capital base and is non-deductible. Recent changes proposed in the federal budget should positively impact the Company.

Future income tax

The Company's future income tax provision was $1.7 million in 2002. Due to a recovery of the future income tax asset recorded on the acquisition of Ascot Energy, no liability is recorded on the balance sheet as at December 31, 2002.

CASH FLOW FROM OPERATIONS AND NET INCOME

Cash flow netback analysis

The table below sets out the Company's operating results at a field, cash flow and net income level:

	Three months ended December 31,	Year ended December 31,
($/boe)	2002	2002
Revenue	30.95	28.88
Royalties, net	(5.24)	(4.66)
Operating expenses	(5.70)	(6.23)
Field netback	20.01	17.99
General and administrative	(1.43)	(2.23)
Financial charges	(0.72)	(0.52)
Capital taxes	(0.38)	(0.28)
Cash flow netback	17.48	14.96
Depletion and depreciation	(6.20)	(6.76)
Future income tax	(6.26)	(3.95)
Net income	5.02	4.25

Cash flow from operations in the three months ended December 31, 2002 was $3.3 million ($0.13 per share) compared to $2.1 million ($0.07 per share) in the third quarter. Net earnings in the fourth quarter were $1.0 million ($0.04 per share) compared to $0.5 million ($0.02 per share) in the third quarter.

Cash flow sensitivities

The Company's 2003 estimated cash flow sensitivities to fluctuations in production, commodity prices and interest rate changes are as follows:

	($000's)	Cash Flow Per Share
Change of Cdn. $0.10/mcf in gas price	370	0.01
Change in gas production for 1 mmcf/d	1,800	0.06
Change of Cdn. $1.00/bbl in oil price	495	0.02
Change in oil production of 100 bbls/d	850	0.03
Change of 1% in interest rates	190	0.01

CAPITAL EXPENDITURES

	Three months ended December 31,		Year ended December 31,	
(thousands of dollars)	**2002**	2001	**2002**	2001
Land	**513**	–	**1,231**	–
Property acquisitions	**–**	3,290	**–**	3,290
Geological and geophysical	**36**	–	**412**	–
Drilling and completions	**2,822**	–	**7,585**	–
Production facilities	**1,766**	–	**4,366**	–
Other	**–**	39	**8**	39
	5,137	3,329	**13,602**	3,329
Corporate acquisition	**–**	–	**20,573**	–
Total	**5,137**	3,329	**34,175**	3,329

The Company drilled 35 gross (26.5 net) wells during the year with an 83 percent success rate. Great Northern drilled 17 gross (11.6 net) wells during the fourth quarter with an 71 percent success rate. During the fourth quarter the Company directed its efforts to drilling exploratory targets (11 gross wells). Drilling was concentrated in Millet which resulted in five gas wells, and in Robsart, Saskatchewan which resulted in five gas wells. Facility expenditures were incurred in the fourth quarter on earlier drilling success at Paddle River, Robsart and in Greater Provost.

Transaction costs related to the Ascot acquisition totaled $2.2 million and were capitalized as part of the acquisition cost.

LIQUIDITY AND CAPITAL RESOURCES

The capitalization of the Company at December 31, 2002 consisted primarily of 30.5 million common shares and a $16 million bank credit facility.

At December 31, 2002, total net debt (including the working capital) was $10.2 million compared to net debt of $12.1 million at September 30, 2002. The decrease in net debt at the end of the fourth quarter is the result of the $4.0 million Private Placement of Flow-Through Common Shares marginally offset by capital expenditures exceeding cash flow from operations during the quarter.

In March 2003, the Company renegotiated its demand revolving credit facility with its banker resulting in an increase in the Company's credit facility to $30 million from $16 million at December 31, 2002. The terms are similar to that described in note 5 to the financial statements.

Capital expenditures in 2003 are forecasted to be approximately $27 million and will be funded primarily from anticipated cash flow combined with the available credit facility described above.

NEW ACCOUNTING STANDARDS

Effective for periods beginning on or after January 1, 2002, companies are required to adopt the recommendations of new CICA Handbook Section 3870, "Stock-Based Compensation and other Stock-Based Payments" and Emerging Issues Committee Abstract No. 122 "Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced".

BUSINESS RISKS

Risk Management

The Company is involved in the exploration, development and production of petroleum and natural gas in the western Canadian Sedimentary Basin. These activities involve a number of risks and uncertainties inherent in the industry. Great Northern's external business risks arise from the uncertainty of petroleum and natural gas pricing, the uncertainty of interest and exchange rates, environmental, safety and regulatory issues.

Inherent in exploration and development are the risks of drilling dry holes, encountering drilling or production difficulties or experiencing high decline rates in producing wells. These risks are mitigated in a number of ways. The Company employs a team of highly qualified and experienced professionals to pursue exploration and development activities. Geological, geophysical, engineering, environmental and economic analyses are performed on prospects to ensure acceptable rates of return and risk for the Company. In addition, the Company uses prudent safety programs.

Being a commodity-based industry, the Company's financial results can be significantly affected by the prices received for petroleum and natural gas as these commodity prices fluctuate in response to external market conditions. The Company maintains a risk management program that fixes the prices of petroleum and natural gas on a percentage of the total expected production volume. This program is under the direction of the Company's Board of Directors. Great Northern is exposed to changes in interest rates as the Company's banking facilities are based on the banker's prime lending rate and short-term banker's acceptance rates.

The Company takes a proactive approach with all provincial and federal environmental and safety regulations as well as carrying appropriate insurance to cover the risks associated with its operations in the field. Changes in regulatory standards can add to the cost of doing business.

SUMMARY OF QUARTERLY RESULTS

2002

($thousands except where noted)	Q1	Q2	Q3	Q4	2002
Production					
Liquids (bbls/d)	223	241	606	645	430
Natural gas (mcf/d)	704	1,372	6,701	8,496	4,346
Total (boe/d)	340	468	1,726	2,061	1,155
Revenues	776	1,230	4,294	5,870	12,170
Royalties, net	111	208	653	993	1,965
Operating costs	193	280	1,071	1,082	2,626
Cash flow from operations	321	583	2,085	3,316	6,305
Per share - basic	0.02	0.05	0.07	0.13	0.27
Per share - diluted	0.02	0.05	0.07	0.12	0.26
Net earnings	97	252	493	952	1,794
Per share - basic	0.01	0.01	0.02	0.04	0.08
Per share - diluted	0.01	0.01	0.02	0.03	0.07

2001*

($thousands except where noted)	Q1	Q2	Q3	Q4	2001
Production					
Liquids (bbls/d)	–	–	–	–	–
Natural gas (mcf/d)	–	–	–	–	–
Total (boe/d)	–	–	–	–	–
Revenues	–	–	–	–	–
Royalties, net	–	–	–	–	–
Operating costs	–	–	–	–	–
Cash flow from operations	–	–	–	(193)	(193)
Per share - basic	–	–	–	(0.02)	(0.02)
Per share - diluted	–	–	–	(0.02)	(0.02)
Net loss	–	–	–	(196)	(196)
Per share - basic	–	–	–	(0.02)	(0.02)
Per share - diluted	–	–	–	(0.02)	(0.02)

operations were recorded for the comparative period in 2

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

[illegible]

[illegible] generally accepted accounting principles in Canada. When [illegible] nates in accounting for transactions which were not complete at [illegible]

[illegible] trols. Policies and procedures are designed to give reasonable [illegible] e safeguarded and financial records are properly maintained to [illegible]

[illegible]

James M. Saunders, P. Eng.

[illegible]

Jerry M. Sapieha, C.A.

[illegible]

AUDITORS' REPORT TO THE SHAREHOLDERS

KPMG LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at December 31,		2002	2001
		$	$
ASSETS			
Current assets			
Cash		–	8,214,000
Accounts receivable		5,192,000	209,000
Prepaid expenses		382,000	50,000
		5,574,000	8,473,000
Property and equipment,	*(note 4)*	34,789,000	3,327,000
		40,363,000	11,800,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable		10,656,000	106,000
Bank debt	*(note 5)*	5,107,000	–
		15,763,000	106,000
Future site restoration	*(note 6)*	136,000	–
		15,899,000	106,000
Shareholders' equity			
Share capital	*(note 7)*	22,866,000	11,890,000
Retained earnings (deficit)		1,598,000	(196,000)
		24,464,000	11,694,000
		40,363,000	11,800,000

On behalf of the Board:

Warren Steckley

Director

James M. Saunders

Director

(See accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Year ended December 31	2002	2001
	$	$
Revenue		
Petroleum and natural gas sales	12,170,000	–
Royalties, net	(1,965,000)	–
	10,205,000	–
Expenses		
Operating	2,626,000	–
General and administrative	938,000	193,000
Financial charges	220,000	–
Depletion and depreciation	2,848,000	3,000
	6,632,000	196,000
Earnings (loss) before taxes	3,573,000	(196,000)
Capital taxes	116,000	–
Future income taxes	1,663,000	–
	1,779,000	–
Net earnings (loss)	1,794,000	(196,000)
Retained earnings (deficit), beginning of year	(196,000)	–
Retained earnings (deficit), end of year	1,598,000	(196,000)
Net earnings (loss) per share		
Basic	0.08	(0.02)
Diluted	0.07	(0.02)

(See accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENT OF CASH FLOW

d December 31,	2002	2001
	$	$
Cash flow related to the following activities		
Operating		
Net earnings (loss) for the period	1,794,000	(196,000)
Items not affecting cash:		
Future income taxes	1,663,000	–
Depletion and depreciation	2,848,000	3,000
Cash flow from operations	6,305,000	(193,000)
Changes in non-cash operating working capital items	(706,000)	(153,000)
	5,599,000	(346,000)
Financing		
Change in bank debt	(8,888,000)	–
Share issuance, net	4,276,000	11,890,000
	(4,612,000)	11,890,000
Cash available for investment activities	987,000	11,544,000
Investing		
Property and equipment additions	(13,602,000)	(3,329,000)
Changes in non-cash investing working capital items	4,401,000	–
	(9,201,000)	(3,329,000)
Change in cash	(8,214,000)	8,214,000
Cash, beginning of year	8,214,000	–
Cash, end of year	–	8,214,000
Cash flow from operations per share		
Basic	0.27	(0.02)
Diluted	0.26	(0.02)

ompanying notes to the consolidated financial statements)

YEAR ENDED DECEMBER 31, 2002

(tabular an

1. NATURE OF OPERATIONS

The shareholders of Great Northern Exploration Ltd. ("the Company"), approved a name change from Ascot Energy Resources Ltd. ("Ascot") and a share consolidation on the basis of one new share for every five existing common shares at the Annual and Special Meeting held on September 26, 2002. All share data including number of common shares outstanding, per share data and stock options outstanding have been adjusted to reflect the share consolidation.

On July 10, 2002, the Company acquired all the shares of Great Northern Exploration Ltd. ("Great Northern"), a private corporation. Great Northern was incorporated on August 9, 2001 and commenced active operations in September 2001.

The transaction has been accounted for as a reverse takeover of the Company by Great Northern. Accordingly, the results of operations include those of Great Northern from the date of incorporation and those of the Company from the date of the acquisition to December 31, 2002.

The Company is engaged primarily in the exploration for and development and production of petroleum and natural gas in Western Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The consolidated financial statements include the accounts of Great Northern Exploration Ltd. (the "Company") and its wholly-owned subsidiaries.

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

b) Petroleum and Natural Gas Operations

i) Capitalized Costs

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized into a single Canadian cost center. Costs include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, well equipment and certain other overhead expenditures related to exploration.

Gains or losses on the sale or disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a significant revision of depletion rates.

ii) Depletion and Depreciation

Petroleum and natural gas properties and related equipment, excluding undeveloped properties, are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves. For purposes of this calculation, petroleum and natural gas reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes salvage values and the cost of unproved properties. Costs of acquiring and evaluating unproved properties are excluded from the depletion base until it is determined whether proved reserves are attributable to the properties or impairment occurs.

III) CEILING TEST

In applying the full-cost method, the Company calculates a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year end, less administrative, financing, site restoration and abandonment, and income tax expenses, plus the costs of unproven properties. Any reduction in value as a result of the ceiling test is charged to operations as an element of depletion and depreciation expense. Undeveloped land is evaluated for impairment at each balance sheet date.

c) Joint Ventures

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

d) Flow-through Shares

The Company from time to time issues flow-through shares. Under these financing agreements, shares are issued at a fixed price with the resultant proceeds used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. A future tax liability is recorded and share capital is reduced by the estimated tax benefits transferred to shareholders.

e) Future Site Restoration and Abandonment Costs

Estimated future costs relating to site restoration and abandonment of petroleum and natural gas properties and related facilities are accrued on a unit of production basis over the estimated life of the proved reserves. Costs are based on engineering estimates, net of expected recoveries, based upon current prices and in accordance with current legislation, technology and industry standards.

f) Future Income Taxes

Income taxes are calculated using the liability method of tax allocation. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. The effect on future income tax liabilities or assets of a change in tax rates is recognized in net income in the period in which the change occurs.

g) Stock-Based Compensation Plan

The Company has a stock-based compensation plan as described in Note 8. Options are issued at current market value, consequently no compensation expense is recorded. Consideration paid by employees or directors on the exercise of stock options is credited to share capital.

h) Per Share Amounts

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

i) Revenue Recognition

Petroleum and natural as sales are recognized as revenue at the time the respective commodities are delivered to purchasers.

j) Financial Instruments

Settlement of crude oil and natural gas swap agreements, which have been arranged as a hedge against commodity price, are reflected in revenues at the time of sale of the related hedged production.

k) Measurement Uncertainty

The amount recorded for depletion and depreciation of property and equipment, the provision for site restoration costs and the ceiling test calculation are based upon estimates of gross proved reserves, production rates, crude oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

3. BUSINESS COMBINATION

On July 10, 2002, the business transaction between Ascot and Great Northern was formally approved. This reverse takeover by Great Northern of Ascot resulted in Ascot issuing 6.5 common shares for each 1 share of Great Northern in which there were 14,052,000 Great Northern common shares issued and outstanding. Total shares issued pursuant to the business transaction were 91,338,000 or 18,267,600 common shares after the above mentioned share consolidation.

The Company acquired all of the shares of Great Northern and has accounted for the transaction as an acquisition of the Company by Great Northern.

Net assets acquired	$
Property and equipment	20,573
Working capital	626
Future income tax asset	3,215
Long-term debt	(13,995)
Transaction costs	(2,167)
Purchase price - common share equity value	8,252

4. PROPERTY, PLANT AND EQUIPMENT

2002	Cost	Accumulated Depletion and Depreciation	Net Book Value
	$	$	$
Petroleum and natural gas properties	37,457	2,702	34,755
Office equipment	47	13	34
	37,504	2,715	34,789

2001	Cost	Accumulated Depletion and Depreciation	Net Book Value
	$	$	$
Petroleum and natural gas properties	3,290	-	3,290
Office equipment	39	2	37
	3,329	2	3,327

The Company has capitalized, as part of petroleum and natural gas properties, indirect exploration overhead relating to property acquisition, exploration and development activities of $147 thousand for the year ended December 31, 2002 (2001 - $nil).

Undeveloped land costs of $6.0 million (2001 - $nil) have been excluded from the amount subject to depletion and depreciation.

5. CREDIT FACILITIES

	2002	2001
	$	$
Prime rate advances	107	–
Bankers' acceptances	5,000	–
	5,107	–

The Company has a demand revolving credit facility to a maximum of $16 million. The credit facilities bear interest at the lenders' prime rate or at the Bankers' Acceptance rate plus a stamping fee of 1.25%. The $16 million borrowing base is subject to a semi-annual and annual review by the bank. This facility matures on May 3, 2003.

In March 2003, the Company renegotiated its demand revolving credit facility with its banker resulting in an increase in the Company's credit facility to $30 million. The interest rate is identical to that described above. The credit facility is secured by a first fixed and floating charge debenture in the amount of $100 million covering all the Company's assets.

The Company has presented borrowing under the credit facility which is payable on demand, as a current liability in accordance with new guidance under the Emerging Issues Committee of the Canadian Institute of Chartered Accountants.

6. SITE RESTORATION AND ABANDONMENTS

At December 31, 2002, total future removal and site restoration costs to be accrued over the life of the remaining proved reserves were estimated, net of recoveries, at $2.1 million (2001 - $nil) of which $136 thousand (2001 - $nil) have been accrued. This estimate is subject to change based on amendments to environmental laws and as new information concerning operations becomes available.

7. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

b) Issued

	Number of Shares	Amount
		$
Balance, December 31, 2000	–	–
Issued for cash	17,065,100	11,897
Share issue costs	–	(7)
Balance, December 31, 2001	17,065,100	11,890
Issued for cash	1,202,500	550
Balance, July 10, 2002	18,267,600	12,440
Acquisition of Ascot Energy Resources Ltd.	10,726,182	8,252
Exercise of stock options	110,500	85
Flow-through shares issued	1,379,400	4,000
Tax benefit renounced to shareholders	–	(1,705)
Share issue costs, net of tax effect	–	(206)
Balance, December 31, 2002	**30,483,682**	**22,866,000**

In December 2002, 1,379,400 flow-through common shares were issued at a price of $2.90 per share for gross proceeds of $4 million. Under the terms of the flow-through agreement, the Company is required to expend $4 million on qualifying crude oil and natural gas expenditures prior to December 31, 2003. As at December 31, 2002, the Company had incurred qualifying expenditures in the amount of $0.4 million.

8. STOCK-BASED COMPENSATION

The Company has implemented a Stock Option Plan for directors and employees. Options under the Plan vest over a four year period with 25% vesting upon each anniversary date of the grant. As of December 31, 2002, there were 2,723,500 common shares reserved for issuance to eligible participants. At December 31, 2002, 2,474,875 (2001 - 1,397,500) options with exercise prices between $0.77 and $2.20 were outstanding and exercisable at various dates to November 20, 2006. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

The following tables summarize the information about the share options as at December 31:

Fixed Options	2002 Shares	2002 Weighted average exercise price	2001 Shares	2001 Weighted average exercise price
Outstanding at beginning of year	**1,397,500**	**$ 0.77**	–	$ –
Granted	**1,200,875**	**$ 1.99**	1,397,500	$ 0.77
Exercised	**(110,500)**	**$ 0.77**	–	$ –
Cancelled	**(13,000)**	**$ 0.77**	–	$ –
Outstanding at end of year	**2,474,875**	**$ 1.36**	1,397,500	$ 0.77
Options exercisable at year end	**232,375**	**$ 0.77**	–	$ –

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2002	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2002	Weighted average exercise price
$ 0.77 – $ 1.50	1,274,000	8.9	$ 0.77	232,375	$ 0.77
$ 1.85 – $ 2.00	726,500	9.5	$ 1.86	–	$ –
$ 2.05 – $ 2.20	474,375	9.9	$ 2.18	–	$ –
	2,474,875		$ 1.36	232,375	$ 0.77

The Company has adopted, on a prospective basis, the new Canadian accounting standard regarding stock options granted to employees on or after January 1, 2002. The Company has elected to follow the intrinsic value method of accounting for stock-based compensation arrangements. Since all options were granted with an exercise price equal to the market price at the date of the grant, no compensation cost has been charged to income at the time of the option grants. Had compensation cost for the Company's stock options been determined based on the fair market value at the grant dates of the awards, the Company's net income and net income per share for the year ended December 31, 2002 would have been the pro forma amounts indicated below:

	2002
Net earnings	
As reported	$ 1,794
Pro forma	$ 1,750
Net earnings per common share - basic	
As reported	$ 0.08
Pro forma	$ 0.08
Net earnings per common share - diluted	
As reported	$ 0.07
Pro forma	$ 0.07

The weighted average fair market value of options granted in the year ended December 31, 2002 are $0.88 per option. The fair market of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions:

	2002
Risk-free interest rate	4%
Estimated hold period prior to exercise (years)	4
Volatility in the price of the Company's common shares	44%
Dividend per share	$ 0.00

9. PER SHARE AMOUNTS

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year.

In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market rate.

	2002	2001
Weighted average shares outstanding (thousands)		
Basic	23,024	10,541
Diluted	24,016	10,541

10. INCOME TAXES

The provision for income tax differs from the result which would be obtained by applying the combined Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

	2002	2001
	$	$
Earnings (loss) before taxes	3,573	(196)
Statutory income tax rate	42.8%	42.6%
Expected income tax	1,529	(84)
Increase (decrease) resulting from:		
Non-deductible crown charges	874	–
Resource allowance	(597)	–
Alberta royalty tax credits	(114)	–
Statutory rate adjustment	(224)	–
Other	23	–
Change in valuation allowance	172	84
Provision for taxes	1,663	–

The future income tax liability is comprised of temporary differences related to the following:

	2002	2001
	$	$
Property and equipment	(928)	–
Provincial income tax rate adjustment	286	–
Future site restoration	44	–
Share issue	313	–
Non-capital losses	827	84
Valuation allowance	(542)	(84)
Future income taxes	–	–

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital:

	2002	2001
	$	$
Accounts receivable	(3,187)	(209)
Prepaid expenses	509	(50)
Accounts payable	6,373	106
Changes in non-cash working capital	3,695	(153)
These changes relate to the following activities:		
Operating activities	(706)	(153)
Investing activities	4,401	–
	3,695	(153)

Amounts paid during the year relating to interest expense and capital taxes are as follows:

	2002	2001
	$	$
Interest paid in the year	220	–
Capital taxes paid in the year	–	–
	220	–

12. FINANCIAL INSTRUMENTS

The Company is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. exchange rates. The Company, when appropriate, utilizes financial instruments to manage its exposure to these risks.

a) Commodity Price Risk Management

Financial instruments are entered into by the Company to protect the downside prices received on the sale of a portion of its crude oil and natural gas production. The agreements entered into are forward transactions providing the Company with a range of fixed prices on the commodities sold. Petroleum and natural gas revenue for the year ended December 31, 2002 include losses of $133 thousand (2001 - $nil) on those transactions.

The following contracts were outstanding as at December 31, 2002:

Commodity	*Type*	*Term*	*Volume*	*Price*	*Index*
Natural gas	Fixed	April 2002 - March 2003	2,000 GJ's/d	$4.20/GJ	AECO
Natural gas	Fixed	August 2002 - March 2003	1,000 GJ's/d	$3.96/GJ	AECO
Natural gas	Fixed	April 2003 - October 2003	1,000 GJ's/d	$5.72/GJ	AECO
Natural gas	Fixed	April 2003 - March 2004	2,000 GJ's/d	$5.87/GJ	AECO
Crude oil	Fixed	September 2002 - August 2003	100 bbls/d	US $26.50/bbl	WTI
Crude oil	Fixed	October 2002 - September 2003	100 bbls/d	US $27.10/bbl	WTI
Crude oil	Fixed	January 2003 - December 2003	150 bbls/d	US $26.58/bbl	WTI

The estimated fair value at December 31, 2002 of these transactions had the contracts been settled at that time would be a loss of $0.5 million.

b) Credit Risk Management

The Company has estimated that the fair value of its financial instruments, which include accounts receivable, accounts payable and accrued liabilities, and long-term debt, approximate their carrying values.

The majority of the Company's accounts receivable are with other companies in the oil and gas industry and are subject to normal industry credit risk.

CORPORATE INFORMATION

EXECUTIVE OFFICES

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Email: info@gnl.com

SENIOR MANAGEMENT

Scott Hickerty
Vice President, Exploration

Bruce Robertson
Executive Vice President

Neil Roszell, P. Eng.
Vice President, Engineering

Jerry M. Sapieha, CA
Vice President, Finance & CFO

James M. Saunders, P. Eng.
President & CEO

DIRECTORS

Murray Cobbe
Ed Chwyl
Dennis Gieck
James M. Saunders
Warren Steckley
Harvey Trimble

STOCK EXCHANGE LISTING

The Toronto Stock Exchange (TSX)
Trading Symbol "GNL"

SOLICITORS

Burnet, Duckworth & Palmer
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
mmcfe/d	Millions of cubic feet equivalent per day
bcf	Billions of cubic feet
mboe	Thousands of barrels of oil equivalent
bcfe	Billions of cubic feet equivalent
mcf	Thousands of cubic feet
boe	Barrels of oil equivalent
mcf/d	Thousands of cubic feet per day
boe/d	Barrels of oil equivalent per day
mmcf	Millions of cubic feet
bbls	Barrels of oil or natural gas liquids
mmcf/d	Millions of cubic feet per day
bbls/d	Barrels per day
mstb	Thousand stock tank barrels
CDN$	Canadian dollar
NGL's	Natural gas liquids
GJ	Gijajoules
OPEC	Organization of Petroleum Exporting Countries
GJ/d	Gijajoules per day
TSX	Toronto Stock Exchange
mmbtu	Millions of British Thermal Units
WTI	West Texas Intermediate
mmbtu/d	Millions of British Thermal Units per day
US$	United States dollar
mbbls	Thousands of barrels
3D	Three dimensional
mmbbls	Millions of barrels

GREAT NORTHERN EXPLORATION

2002 ANNUAL REPORT

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